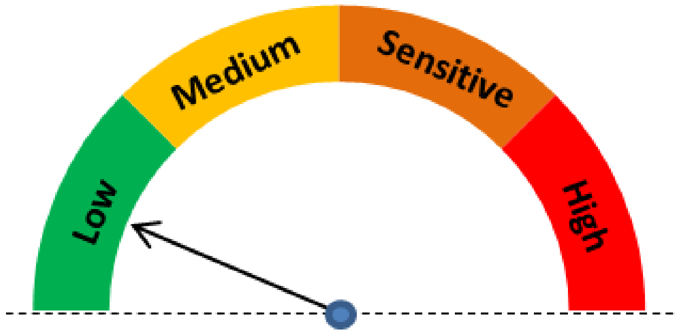
Euler Hermes Economic Research

Global Sector Report

CHEMICALS

Sector Risk Rating



What to Watch?

- China's economic rebalancing is shifting internal demand from basic to specialized chemicals
- Positive effects of low oil prices mostly benefit upstream segments
- Firms' capacity to cope with increasing interest rate particularly burden emerging markets
- Higher R&D spending required for chemical players to reach an upmarket positioning
- M&A activity to continue in 2016 putting at risk small players

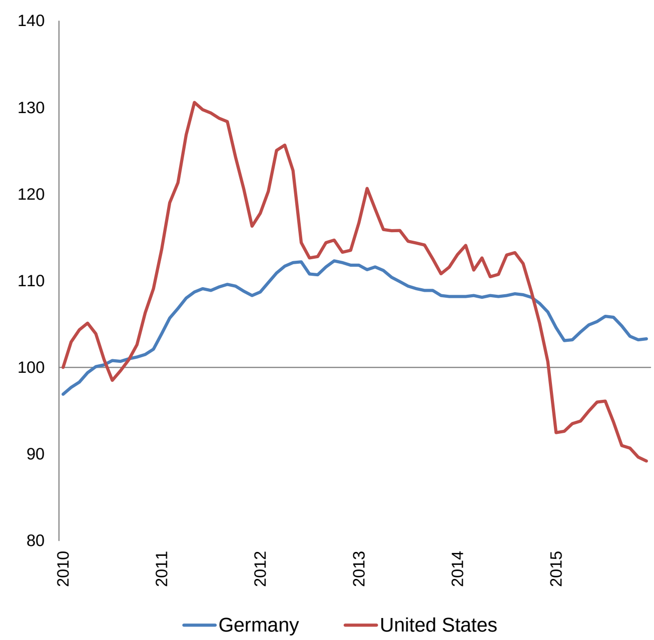
European chemicals companies catching up with the US thanks to low oil prices

The chemical sector is a cyclical business. It is closely tied with the fluctuations in countries' GDP, because so many of its products are used in early stages of the manufacturing supply chain. Currently, companies count on the buoyant automotive sector - the chemical industry's first outlet, ahead of construction and electronics. Combined, these three sectors account for roughly a third of chemical companies' global revenues.

Estimated at USD3tn (pharmaceuticals excl.), global chemical output experienced a decent year in 2015 as the slump in oil prices brought down the costs of feedstock. However, pass-through to output prices was a drag on worldwide sales increase in comparison to the +3.5% growth in sales volume in 2015. In 2016, we do not expect global sales to pick up despite a growth in volume estimated at +3%.

The collapse in the oil price helps European chemicals companies to catch up with North American competitors, still boosted by their limited exposure to changes in naphtha prices. However, chemical sales are likely to be hit by poor economic performance across emerging countries (Russia and Brazil are prominent examples) while China might face a more gloomy outlook than previously hoped.

Producer Price Index for Chemicals (Index: basis 100=2007)



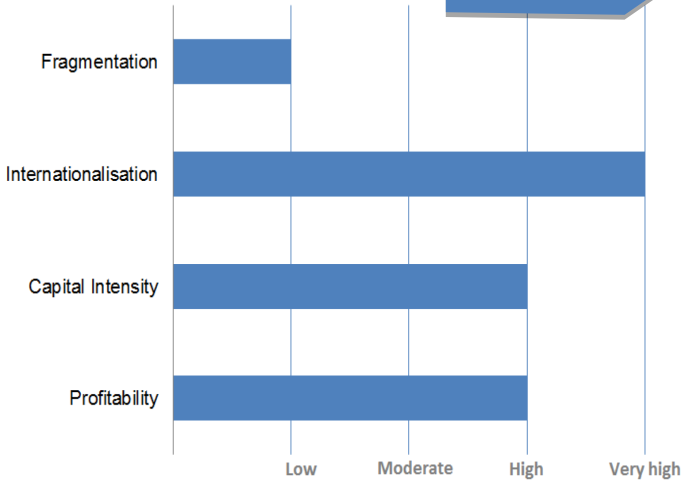
Sources: IHS, Euler Hermes

Key Players

Country	Role	Sector Risk
United States	#1 importer #2 producer #2 exporter	
Germany	#1 exporter #3 importer	
China	#1 producer #2 importer	

Sector Value:
3,000bn
USD

ID Card



Strengths

- Innovative sector linked to a strategy of upmarket positioning
- Diversified outlets softening the impact of external shocks on firms' revenues
- Sound level of operating cash flows enabling corporates to cope with high capital requirements

Weaknesses

- Activity highly sensitive to the global economic situation
- High capital intensity meaning high level of debt
- Poor public image due to environmental concerns
- Struggling agrochemicals showed by the recent failure of Monsanto's takeover of Syngenta

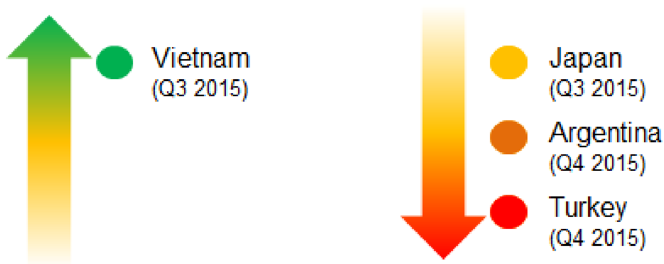
Subsectors Insights

Petrochemicals: Along with refining, gains from cheap oil prices on both sides of the Atlantic.

Polymers/plastics: European chemical players have been catching up with US and Middle East competitors thanks to low oil prices which bring down the cost of feedstock supply.

Agrochemicals: The subsector has been hit by decreasing revenues following less abundant harvests than expected.

Recent Sector Risk Changes



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